

Service Date: November 26, 1980

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

In the Matter of MOUNTAIN STATES)	
TELEPHONE AND TELEGRAPH COMPANY'S)		UTILITY DIVISION
Proposed Price Changes in Vertical)	DOCKET NO. 6714
Service Offerings and Proposed)	ORDER NO. 4706a
Implementation of a Transfer Fee.)	

BACKGROUND

1. On October 20, 1980, the Commission issued Order No. 4706, its final order in Docket No. 6714, the vertical terminal equipment pricing methodology case. That order, after adopting, an appropriate pricing methodology, directed Mountain Bell to file tariffs re-pricing vertical terminal equipment consistent with that pricing methodology. Such a re-pricing would have the effect of raising the rates for most vertical terminal equipment offerings.

2. On October 30, 1980, Mountain Bell filed its motion for Reconsideration of Order No. 4706. Therein Mountain Bell requested that the re-pricing of vertical terminal equipment be delayed and incorporated into its next general rate case, which it intends to file before the end of 1980.

3. On November 10, 1980, Executone filed its response in opposition to Mountain Bell's Motion to Reconsider.

DISCUSSION

4. Mountain Bell pointed out in its motion that the costs employed at the hearing in Docket No. 6714 are now a year and a half old. Gathering of updated cost data will be necessary to implement re-pricing pursuant to Order No. 4706. It will also be necessary to update inventories from those referred to at the time of the hearing. In requesting that the re-pricing be delayed until the general rate case is considered, the Company argued that this would avoid the filing of two sets of tariffs, cost data, and

inventories; one for implementation of Order No. 4706 and one in the filing of the general rate case only weeks later.

5. The Commission does not find this argument very persuasive. If the cost data, inventories and tariffs necessary to implement Order No. 4706 were filed within the 30 days they would require to be compiled, the Commission would not require that they be filed again in connection with the general rate case. Having been so recently considered, there would be no need to re-examine the area of vertical terminal equipment in such a general rate case. The Commission does not find the “duplication of efforts” argument compelling.

6. Mountain Bell also argues in its motion that it would be inappropriate to implement re-pricing at this time because of the accompanying decrease in basic exchange rates (see Order Paragraph 6, Order No. 4706). The Company contends that such a reduction would provide a false price signal in that it would likely be followed soon thereafter by a rate increase as a result of the anticipated general rate case.

7. Although there is some merit to the logic of this argument, again the Commission does not find it compelling. Basic exchange service cannot be classified as a highly discretionary or highly price elastic service offering. Consequently, a temporary price reduction would have minimal if any effect upon the demand for such service.

8. Finally, Mountain Bell pointed out that many subscribers have rate increase concerns pending before the Commission. The Commission takes this to be a reference to the subscriber reaction to the private line portion of the most recent general rate case order (Order No. 4585a). The Commission is very concerned about the impact of that order upon the private line subscriber. A separate docket (No. 80.10.85) has been established to specifically examine that impact. That docket is particularly relevant to the matter at hand in that many subscribers impacted by the private lines re-pricing would also be impacted by the re-pricing of vertical terminal equipment.

9. Order No. 4585a implemented rate increases that would cause an average increase of 75% in recurring private line charges. Some increases are actually greater than

the average because of the rate restructuring which accompanied the re-pricing. The Commission held the increase in recurring private line charges to 75% even though the cost studies justified an increase of 102%. The Commission did so because it did not feel that the subscribers could absorb an immediate move to full cost pricing. The intent behind moderation of the increase for private line charges would be frustrated if many of those same subscribers were now hit with the substantial increases entailed in implementation of vertical terminal equipment re-pricing.

10. Many system offerings which involve vertical terminal equipment also necessarily involve private line charges. Clearly if both areas are re-priced within such a short period of time the subscriber impact will be compounded. Also serving to magnify the subscriber impact is the fact that many of the accounts involving private line charges as well as vertical terminal equipment are public entities (local governments, schools, etc.) which have very limited budgeting flexibility. Such accounts would require additional time in which to adjust to major increases in both rate areas.

11. For these reasons the Commission finds merit in Mountain Bell's proposal to delay implementation of vertical terminal equipment re-pricing until consideration of the next general rate case. This would delay re-pricing for about six to ten months. The result would be a spreading of the implementation of increases in charges for private lines and vertical terminal equipment, thereby providing a better opportunity for common subscribers to both areas to absorb the impacts of the increases. This finding in no way alters the Commission's intent to price vertical terminal equipment at or above fully distributed cost. It merely represents a change in the timing of the re-pricing necessary to carry out the provisions of Order No. 4706.

12. Executone is correct in its response to Mountain Bell's Motion to Reconsider that the Commission has identified certain of Mountain Bell's vertical terminal equipment tariffs as being non-compensatory (i.e. cross-subsidized). Executone is also correct that to the extent any cross-subsidization exists, Mountain Bell will continue to enjoy an unfair competitive advantage until vertical terminal equipment re-pricing pursuant to the findings in Order No. 4706 is implemented. Executone as a competitor of Mountain Bell in this area argued that it would be unreasonable for the Commission to allow this advantage to

continue for the 6 to 10 month period that would arise if the re-pricing took place as a part of the next rate case.

13. The Commission is clearly faced here with a question of balancing the benefits and disadvantages inherent in the timing options of the re-pricing. If Order No. 4706 were left as is, the Commission would-immediately achieve its goal of fully distributed cost pricing of vertical terminal equipment and would eliminate the unfair competitive advantage now held by Mountain Bell. However, because the re-pricing would so closely follow the private line re-pricing, the subscriber impact would be very severe. On the other hand, if re-pricing were delayed until the next-general rate case, subscribers would be better able to make adjustments necessary to absorb both the private line and vertical terminal equipment re-pricing. However, cross-subsidization and an unfair competitive advantage would continue to exist for an additional period of 6 to 10 months.

14. The Commission finds that the disadvantages of re-pricing at this time greatly outweigh the benefits. Executone and the basic exchange ratepayers have been absorbing the cross-subsidization inherent in the vertical terminal equipment area for years. An additional 6 to 10 months of this condition although undesirable, is preferable to the consequences of re-pricing at this time. Judging by the subscriber reaction to private line re-pricing, vertical terminal equipment re-pricing would at this time likely result in drastic consumer behavior. Vertical terminal equipment subscribers need time first to adjust to the private-line re-pricing and secondly to seek alternative sources of terminal equipment should that be their choice after considering the upcoming re-pricing in that area.

15. The Commission, therefore finds that it would be in the best interests of the consuming public as a whole to order that re-pricing of vertical terminal equipment, as outlined in Order No. 4706, take place in conjunction with the next general rate case filed by Mountain Bell.

CONCLUSIONS OF LAW

1. The Commission properly exercises jurisdiction parties and matters in this docket pursuant to Title 69, Chapter 3, MCA.
2. Subscriber impact is a proper consideration in any rate structure proceeding.
3. The method and timing of the re-pricing ordered herein is consistent with the development of just and reasonable rates.

ORDER

WHEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS
THAT:

1. Re-pricing of vertical terminal equipment outlined in Order No. 4706 is to be implemented in conjunction with consideration of Mountain Bell's next general rate case filing.
2. As a part of its next general rate case filing, Mountain Bell is to submit updated cost data and inventories of vertical terminal equipment offerings. The cost data is to be consistent with the methodology outlined in Order No. 4607. The cost and inventory information is to be presented in such a manner as to allow the Commission to isolate the impact of Docket No. 6714 re-pricing.
3. Any request by Mountain Bell for interim relief in connection with its next general rate case filing is to provide for obtaining such relief from re-pricing of vertical terminal equipment to the full extent, possible.
4. In any event, updated cost data and inventories necessary to re-price vertical terminal equipment is to be filed with the Commission by December 31, 1980. This is to occur even if a general rate case is not filed by the end of the year.

5. This order supersedes Order No. 4706. To the extent that: inconsistencies exist, this order is controlling; otherwise the provisions of Order No. 47065 remain operative.

6. Mountain Bell's request for oral argument has been rendered moot by this order.

DONE AND DATED THIS 24th day of November, 1980, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION .

GORDON E. BOLLINGER, Chairman

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

JAMES R. SHEA, Commissioner

GEORGE TURMAN, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, .MCA; and Commission Rules of Practice and Procedure, esp. 38. 2. 4806 ARM.